



MCI Communications  
Corporation

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May 8, 1996

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William F. Caton  
Acting Secretary  
Federal Communications Commission  
Washington, D.C. 20554

MAY - 8 1996

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF SECRETARY

Re: Ex Parte Comments  
CC Docket No. 96-45

Dear Mr. Caton:

In an ex parte filing on April 16, 1996, U S West presented its reaction to the recent Washington Utilities and Transportation Commission (WUTC) decision in U S West's rate case proceeding. In that decision, the WUTC rejected a rate increase proposed by U S West, and ordered U S West to reduce its rates by \$91.5 million. The WUTC expressly rejected certain arguments made by U S West regarding the cost of local service, and expressly found that local service in the state of Washington is not subsidized by other services and that local service at the then-existing rate levels provided a substantial contribution to U S West's overall operations. Indeed, the WUTC ordered U S West to reduce its local retail rates by \$31.8 million.

U S West complains in its ex parte about the WUTC's finding that U S West's rates for local service cover the incremental cost of the local exchange. U S West quotes a section of the WUTC decision that finds the incremental cost of local service is less than \$5 per month, computed by subtracting the local loop component of total cost - \$8.96 per month - from the total cost of local service - \$13.38 per month. What U S West fails to note, however, is that the WUTC also found that U S West's local service rate of \$10.50 plus its subscriber line charge of \$3.50 more than recover the entire \$13.38 cost of local service. It was on the basis of these facts that the WUTC concluded that residential service was covering its cost.

The WUTC's decision and the findings referred to above were based in part on a model developed by Hatfield Associates and filed by AT&T in

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that proceeding. The Hatfield model incorporates certain outputs of the Benchmark Cost Model (BCM), which is a model jointly developed by U S West, NYNEX, Sprint, and MCI (the Joint Sponsors).

The BCM is intended to identify areas where the cost of service can reasonably be expected to be so high as to require explicit high cost support. As a Total Service Long Run Incremental Cost (TS-LRIC) model of the cost of basic universal service, the BCM can also provide useful information to state and federal regulators on the economic efficiency of current rate levels and structure. The Joint Sponsors are making revisions to the BCM to improve its accuracy, but the model as it now stands is one of the few sources of TS-LRIC costs. MCI remains committed to the development of the BCM and its use in the universal service proceeding at the Commission, and continues to work with the Joint Sponsors to further refine and develop the BCM.

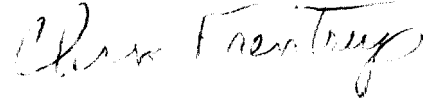
MCI also continues to work on cost models that will answer in a timely fashion the questions regulators face, including the cost of local service, the amount of universal service support needed, and the cost of unbundled network elements. While these questions are all inter-related, the necessity for a timely response to regulators may require use of different models in different proceedings, simply because models are in different stages of development. For this reason, MCI has supported use of the Hatfield model in various state proceedings, including Washington, to help regulators answer questions that the BCM is not designed to answer, or cannot answer in its current state of development. We have not claimed, in Washington or elsewhere, that our support of the Hatfield model in any way implies support by any of the other Joint Sponsors, including U S West, of that model.

Moreover, MCI strongly believes that the BCM's great value to the regulatory bodies and the industry is that it can easily be run with a choice of inputs by any party that obtains the software. This type of costing tool will allow both the developers and the users of the model to be on an equal footing in regulatory proceedings.

Under the Communications Act of 1996, regulators will have to determine the size of any subsidy necessary to ensure local service to high-cost rural and insular areas. The WUTC's decision was based on all the evidence including cost models before it, presented in a full rate proceeding, with opportunity for comment and cross-examination by all sides. MCI looks forward to working with the Commission and the Joint Board in this

proceeding to develop the tools they need to determine the level of support needed to ensure universal service in a competitive environment.

Respectfully submitted,  
MCI TELECOMMUNICATIONS CORP.

A handwritten signature in black ink, appearing to read "Chris Frentrup". The signature is fluid and cursive, with the first name "Chris" and last name "Frentrup" clearly distinguishable.

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CC: Joint Board Commissioners  
Joint Board Staff

## CERTIFICATE OF SERVICE

I, Stan Miller, do hereby certify that copies of the foregoing Ex Parte were sent via first class mail, postage paid, to the following of this 8th day of May, 1996.

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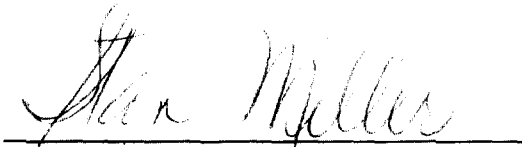
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A handwritten signature in cursive script, reading "Stan Miller", written in black ink. The signature is positioned above a horizontal line.

Stan Miller